

Steven L. Beshear
Governor

Leonard K. Peters, Secretary
Energy and Environment
Cabinet



Commonwealth of Kentucky
Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615
Telephone: (502) 564-3940
Fax: (502) 564-3460
psc.ky.gov

David L. Armstrong
Chairman

James W. Gardner
Vice Chairman

Linda K. Breathitt
Commissioner

NEWS RELEASE

Contact:
Andrew Melnykovich
502-782-2564 or 502-564-3940
502-330-5981 (cell)
Andrew.Melnykovich@ky.gov

PSC Closes Comprehensive Review of East Kentucky Power *Says electric cooperative has addressed recommendations in 2010 report*

FRANKFORT, Ky. (Feb. 19, 2013) – Saying that East Kentucky Power Cooperative (EKPC) has fully addressed the recommendations made by independent consultants in June 2010, the Kentucky Public Service Commission (PSC) today ended its comprehensive management review of the electric utility.

The review has led to “core changes within EKPC” that have left the company “well positioned for long-term success,” PSC Chairman David Armstrong said in a letter to EKPC President Tony Campbell.

EKPC provides power to and is owned by 16 member distribution cooperatives that have over 500,000 customers in 87 counties in eastern and central Kentucky.

Since mid-2010, EKPC has acted on 29 recommendations arising from a review, known as a focused management and operations audit, conducted by The Liberty Consulting Group. Twelve of the recommendations addressed management issues and 17 were related to corporate governance.

The PSC ordered the audit in December 2008, after EKPC’s financial condition had declined for several years as demonstrated by deteriorating financial ratios and a prior default on credit agreements. In ordering the audit, the PSC noted that EKPC was perilously close to a second credit default.

Liberty Consulting conducted the audit under the direction of PSC staff, but reached its conclusions and recommendations independently. PSC staff visited each of EKPC’s 16 member cooperatives to explain the reasons for the audit, update the status of the audit, and offer the member cooperatives the opportunity to comment on the audit.

-more-

Topics covered by the audit included EKPC's governance, including the structure and functioning of its board of directors; the utility's strategic planning; the interaction of EKPC's management with its board; and the utility's operations, including financial systems, business strategies and operating policies and procedures.

Liberty Consulting identified a number of issues that threatened EKPC's long-term future, including a conflict between keeping rates low at the expense of financial stability, inadequate long-term planning, weak corporate governance standards and inadequate oversight by the EKPC board of the utility's management and operations.

The 29 recommendations made by Liberty Consulting provided a detailed outline for addressing the issues identified in the management audit. Liberty Consulting, PSC staff and EKPC then agreed on an action plan that set forth target dates for implementing the recommendations and established a review process to monitor the utility's actions through a series of progress reports.

EKPC submitted the last of those reports in June 2012. The PSC staff recently finished its review of the report and determined that the last nine recommendations have been completed.

With the final recommendations acted upon, there is no need for EKPC to submit further progress reports, Armstrong said in his letter to Campbell.

"On behalf of the commission and staff, I commend EKPC for the time and effort it has devoted to implementing the audit recommendations," Armstrong said. "We recognize that it has been a challenge for EKPC and its member cooperatives to address the audit recommendations."

The Liberty Consulting audit was paid for by EKPC. State law allows the PSC to hire an independent auditor at company expense. State law also allows EKPC to assist in the selection of the auditor.

The final audit report is available on the PSC website at:

http://psc.ky.gov/agencies/psc/M_audit/EKPCFinalReport4-20-2010.pdf

The PSC is an independent agency attached for administrative purposes to the Energy and Environment Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in Kentucky and has approximately 90 employees.